



IHACPA

National Pricing Model Consultation Policy

June 2024



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Table of Contents

Acronyms and abbreviations	4
Definitions	5
1. Executive summary	6
2. Key principles	8
3. Consultation process	10
4. Statement of Impact.....	12
5. Thresholds for additional consultation.....	15
6. Shadow pricing	18
Appendix A: Extracts from the addendum	22
Appendix B: Statement of Impact	24

Acronyms and abbreviations

ABF	Activity based funding
AHPCS	Australian Hospital Patient Costing Standards
HCEF	Health Chief Executives Forum ¹
HMM	Health Ministers' Meeting ²
IHACPA	Independent Health and Aged Care Pricing Authority
JAC	Jurisdictional Advisory Committee
NBEDS	National best endeavours data set
NEC	National efficient cost
NEP	National efficient price
NHFB	National Health Funding Body
NHRA	National Health Reform Agreement
NMDS	National minimum data set
Pricing Framework	Pricing Framework for Australian Public Hospital Services
TAC	Technical Advisory Committee
The addendum	Addendum to the National Health Reform Agreement 2020–25
The Administrator	Administrator of the National Health Funding Pool
This policy	National Pricing Model Consultation Policy

¹ The Health Chief Executives Forum (HCEF) is an intergovernmental forum for joint decision-making and strategic policy discussions that helps to efficiently deliver health services in Australia. It is made up of the health department chief executive officer from each state and territory and the Australian Government. The former Australian Health Ministers Advisory Committee is now the HCEF.

² The Health Ministers' Meetings (HMM) works to progress health issues of national importance which require cross-border collaboration. It is made up of the health ministers of each state and territory government, along with the Australian Government Minister for Health and Aged Care. The former Council of Australian Governments Health Council is now the HMM.

Definitions

Activity based funding	<p>Refers to a way of funding public hospitals whereby they get paid for the number and mix of patients they treat. Activity based funding is underpinned by national classification systems, data collections, costing standards, price weights and efficient costs developed by the Independent Health and Aged Care Pricing Authority (IHACPA), as outlined in the National Health Reform Agreement (NHRA).</p> <p>An activity based funding (ABF) activity may take the form of a separation, phase, presentation or service event.</p>
National funding bodies	<p>Collective term for IHACPA, the National Health Funding Body and the Administrator of the National Health Funding Pool.</p>
National funding model	<p>Refers to the calculation, payment and reconciliation of Commonwealth NHRA funding for public hospital services by the Administrator applying the agreed methodology, business rules and policies. This is calculated from ABF based on national weighted activity units and IHACPA's national efficient price (NEP) determination, and block funding calculated from the IHACPA's national efficient cost determination.</p> <p>The agreed methodology, business rules and policies include the ABF formula, the Administrator's funding formula and associated operational documents, IHACPA's Pricing Framework for Australian Public Hospital Services and national pricing model technical specifications, classification systems, counting rules, and data, coding and costing standards.</p>
National pricing model	<p>The national pricing model is produced annually by IHACPA and defines the NEP, price weights and adjustments based on the cost and activity data from 3 years prior. For more detail, refer to the National Pricing Model Technical Specifications.</p>
Parties	<p>Refers to the signatories to the Addendum to the NHRA 2020–25, being the Australian Government and each state and territory government.</p>
Pricing Authority	<p>The governing body of IHACPA established under the <i>National Health Reform Act 2011</i>.</p>

1. Executive summary

1.1 Background

The National Health Reform Agreement (NHRA), signed in August 2011, specifies that the Independent Health and Aged Care Pricing Authority (IHACPA) is to develop, refine and maintain systems as necessary to calculate the national efficient price (NEP), including determining classifications, costing, data elements and data collections.

The Addendum to the NHRA 2020–25, signed by all Australian governments in May 2020, further defines IHACPA's role in public hospital funding arrangements, particularly when considering changes to the national pricing model and the impact on the national funding model.

The national pricing model is produced annually by IHACPA and defines the NEP, price weights and adjustments based on the cost and activity data from 3 years prior. The NEP underpins activity based funding (ABF) across Australia for public hospital services, whereby hospitals are paid for the number and mix of patients they treat. The national efficient cost (NEC) determines the Australian Government funding contribution for public hospital services that are not suitable for ABF, such as for small rural hospitals.

1.2 Legislative requirements

Pursuant to section 211(1) of the *National Health Reform Act 2011* the annual NEP and NEC determinations are to be provided to the Commonwealth and state and territory health ministers for the statutory 45-day ministerial comment period prior to publication.

The addendum outlines additional provisions relating to the consultation processes IHACPA is required to undertake for proposed changes to the national funding model, with special reference to the processes for changing ABF classifications and costing methodologies.

Clause B10 of the addendum provides that IHACPA will undertake further consultation on changes that materially impact the application of the national funding model, in addition to specific consultation requirements and processes with the Parties, which refers to the signatories to the addendum, being the Commonwealth and each state and territory.

Clause B11 of the addendum stipulates that the national funding bodies, which refers to IHACPA, the National Health Funding Body (NHFB) and the Administrator of the National Health Funding Pool, must consult with affected Parties and provide relevant analysis and documentation on decisions that could materially impact Parties before releasing draft or final advice on the matter.

Clause A42 of the addendum requires IHACPA to use transitional arrangements when developing new ABF classification systems or costing methodologies, including shadow pricing classification system changes and pricing based on a costing study, for 2 years or a period agreed with the Commonwealth and a majority of states and territories.

Clauses B37 and B38 of the addendum outline the consultation requirements whereby IHACPA must seek guidance from the Parties, through the Jurisdictional Advisory Committee (JAC), when

implementing changes to the national funding model that will impact the way services are delivered and provide a Statement of Impact when material changes or significant transitions are proposed to the national funding model.

Full extracts from the addendum are provided at **Appendix A**.

1.3 Purpose

The purpose of the National Pricing Model Consultation Policy is to outline the guiding principles and consultative processes associated with the development of the NEP and NEC determinations and proposed changes that materially impact the application of the national funding model, including the parameters for progression from shadow pricing to pricing.

This policy is intended to facilitate the engagement and participation of jurisdictions in the consultation process, through IHACPA's Technical Advisory Committee (TAC), JAC and Clinical Advisory Committee, particularly in identifying operational, technical and clinical implications of proposed changes. In order to maintain accurate and effective pricing of public hospital services, IHACPA must ensure the consultation process is completed in a timely and predictable manner, to allow sufficient notification for implementation of changes.

This policy is to be applied in conjunction with the following IHACPA policies:

- [Back-Casting Policy](#)
- [Assessment of Adjustments to the National Pricing Model Policy](#)
- [National Pricing Model Stability Policy](#)
- [Shadow Pricing Guidelines](#).

This policy does not apply to IHACPA's functions pertaining to the provision of advice to the Australian Government on aged care costing and pricing.

1.4 Review

The Pricing Authority and Chief Executive Officer of IHACPA will review this policy, including associated documentation, every 3 years or as required.

This policy was last reviewed in June 2024.

2. Key principles

Under the addendum, IHACPA is required to seek guidance from the Parties, through JAC, when implementing changes to the national funding model that will impact the way services are delivered.

In determining the NEP and NEC for public hospital services, IHACPA ensures these decisions are evidence-based and use the latest cost and activity data supplied by states and territories. IHACPA balances a range of policy objectives including improving the efficiency and accessibility of public hospital services.

This policy signals IHACPA's commitment to transparency and accountability as it undertakes its work. IHACPA and the jurisdictions will be guided by the following principles and responsibilities associated with the consultation process for proposed changes to the national funding model. The guiding principles are outlined in **Table 1**.

Table 1: Guiding principles for proposed changes to the national funding model

Overarching principles to inform the policy intent behind the consultation process for proposed changes to the national funding model
Accurate pricing of services:
The accuracy and responsiveness of IHACPA's pricing processes will not be adversely affected by the procedures in place for consulting on proposed changes to the national funding model.
Engagement:
IHACPA will actively engage and consult with all 9 jurisdictions in the consultative processes for proposed changes to the national funding model. Jurisdictions will actively participate in the consultation process for proposed changes to the national funding model, including the provision of all relevant data and information required by IHACPA.
Transparency:
Jurisdictions will be able to reliably anticipate outcomes of new processes associated with national funding model changes through the provision of technical details and clear policy objectives by IHACPA. Jurisdictions will work with IHACPA to identify potential risks and notify IHACPA of unforeseen impacts identified as a result of application of the national funding model.
Predictability:
IHACPA's pricing processes will be consistent and predictable to allow meaningful participation from jurisdictions and result in minimal disruptions to implementation of changes.
Flexibility:
IHACPA will support jurisdictions in trialling innovative funding models and innovative models of care, guided by the requirements under clauses A96–A101 of the addendum.

Process principles to guide the timing of the jurisdictional notification and consultation process

Early notification:

IHACPA will notify jurisdictions as early as possible of proposed changes to the national funding model to allow for meaningful contribution and smooth implementation, including where changes may be implemented as a result of feedback received during the 45-day ministerial comment period for the draft NEP and NEC determinations.

Jurisdictions will notify IHACPA as early as possible when intending to trial an innovative funding model or innovative model of care under clauses A96–A101 of the addendum, when requesting additional guidance be sought or when escalating a funding policy issue.

IHACPA and jurisdictions will also notify each other as early as possible of any potential risks or unforeseen impacts associated with proposed changes to the national funding model that have been identified.

Timeliness:

Processes will be timely to ensure effective and accurate pricing of public hospital services and, where possible, align with jurisdiction budget cycles to minimise disruptions to service delivery.

Jurisdictions will respond to consultation requests and facilitate the provision of required data in a timely manner, to minimise delays in the consultation process and IHACPA's pricing processes.

IHACPA will respond to jurisdictional enquiries and requests raised through TAC and JAC in a timely manner, to facilitate consultation and robust decision making.

Impact principles to ensure consideration of all potential implications of proposed changes to the national funding model

Clinical and operational impacts:

IHACPA will consider and address potential clinical and operational impacts resulting from proposed changes that extend beyond financial implications.

Jurisdictions have a mutual obligation to advise IHACPA of any data anomalies, risks or potential clinical or operational impacts that have been identified as a consequence of proposed changes to the national funding model.

3. Consultation process

3.1 Overview

Under the addendum, IHACPA is required to consult with the Parties when developing the annual NEP and NEC determinations and when considering and implementing changes to the national funding model that will impact the way services are delivered.

IHACPA seeks technical input from TAC and policy input from JAC, as well as health ministers through the statutory 45-day ministerial comment period for the draft NEP and NEC determinations. The Parties may escalate a funding policy issue to the Health Chief Executives Forum (HCEF) or the Health Ministers' Meetings (HMM) for consideration.

Changes proposed within the NEP and NEC development cycle will adhere to timeframes for existing annual processes relating to IHACPA's Pricing Framework for Australian Public Hospital Services and NEP and NEC determinations. This is outlined in **Table 2**.

Table 2: Timelines for the NEP and NEC development cycle

Deliverable	Consultation ³	Timeline	Detail
Consultation paper on the pricing framework	30-day public consultation period	Commences: May of the current year	Seeks public consultation feedback on major issues and proposed changes to the national funding model for the NEP and NEC determinations.
		Concludes: June of the current year	
Draft pricing framework	45-day ministerial comment period	Commences: September of the current year	Addresses and incorporates stakeholder feedback from the public consultation process.
		Concludes: October of the current year	
Draft NEP and NEC determinations	Consultation through TAC and JAC 45-day ministerial comment period	Commences: September of the current year	Discussion of major issues and proposed changes to the national funding model for the NEP and NEC determinations at TAC and JAC meetings, including development of the Statements of Impact for proposed changes to the national funding model.
Statements of Impact	Consultation through TAC and JAC 45-day HMM consultation period	Concludes: January of the following year	Distribution of the draft NEP and NEC determinations to health ministers. Distribution of the Statements of Impact to HMM.

³ The 30-day public consultation period and 45-day ministerial comment period refer to calendar days.

Deliverable	Consultation ³	Timeline	Detail
Final pricing framework		Published: December of the current year	Addresses and incorporates feedback from the ministerial consultation process.
Final NEP and NEC determinations		Published: March of the following year	Addresses and incorporates feedback from the ministerial and HMM consultation process, including endorsed changes to the national funding model.

As part of the draft NEP and NEC determinations, Statements of Impact are provided to TAC and JAC for all proposed changes to the national funding model in the NEP and NEC determinations, prior to being provided to HMM for additional consultation where required at the time of distribution of the draft determinations.

Feedback from health ministers on the draft NEP and NEC determinations and feedback from HMM on the proposed changes outlined in the Statements of Impact will be considered by the Pricing Authority in finalising the NEP and NEC determinations. Unless there is significant feedback received from health ministers and HMM that would require IHACPA to amend or not proceed with the proposed changes outlined in the Statements of Impact at the conclusion of the 45-day consultation period, IHACPA will recommend that the Pricing Authority implement the proposed changes as part of the final NEP and NEC determinations.

4. Statement of Impact

4.1 Statement of Impact

Clause B38 of the addendum states that IHACPA must provide a Statement of Impact to the Parties when material changes or significant transitions are proposed to the national funding model, including changes that will have a major impact on any one party or materially redistribute activity between service streams.

Clause B39 of the addendum stipulates that the Statement of Impact must be timely in relation to the matter raised and:

- a. include a risk assessment of the proposed changes or adjustments;
- b. outline appropriate transition arrangements;
- c. be informed by consultation with the Parties; and
- d. have input from the Administrator.

IHACPA will utilise the Statement of Impact to inform and engage with jurisdictions for all proposed changes to the national funding model. A Statement of Impact will be prepared for each proposed change and for discussion at TAC and JAC meetings. Where possible, IHACPA will endeavour to seek technical input from TAC on proposed changes prior to consultation with JAC. There may be situations where matters are deemed urgent by the Chair of TAC or JAC that require Statements of Impact to be provided directly to JAC prior to being tabled at TAC.

The Statement of Impact form to be utilised by IHACPA is provided at **Appendix B**.

4.2 Overall scope

4.2.1 Materiality of proposed changes

IHACPA will assess the materiality of proposed changes and transitions to determine what constitutes a material change or a significant transition requiring additional consultation. Proposed changes and adjustments to the national funding model will be assessed against the thresholds to ensure that IHACPA's pricing process remains reactive and transparent. The proposed changes and adjustments that trigger one or more of the established thresholds will undergo additional consultation with HMM.

The thresholds are outlined at chapter 5.

4.2.2 Risk assessment

The risk assessment included in the Statement of Impact will assess the benefits and risks associated with the proposed change across different risk categories. IHACPA will assess the likelihood of the identified risks occurring and address how the risks will be mitigated and/or managed.

4.2.3 Transition arrangements

The Statement of Impact outlines the transition arrangements associated with the proposed change, including whether the change will require shadow pricing. This includes proposals to commence shadow pricing and proposals to transition from shadow pricing to pricing. Further detail on principles and timeframes for commencing shadow pricing and reporting requirements during the shadow pricing period is provided in the [Shadow Pricing Guidelines](#).

Further detail on the requirements for transitional arrangements is provided in chapter 6 of this policy.

4.2.4 Consultation pathway

The purpose of the Statement of Impact is to inform and engage with jurisdictions for all proposed changes to the national funding model. The Statement of Impact includes IHACPA's assessment of whether the proposed change triggers the requirement for additional consultation with HMM, as outlined in chapter 3.

If jurisdictions disagree with IHACPA's assessment of a proposed change and the necessity of additional consultation with HMM, the Statement of Impact provides an avenue for the Commonwealth or 2 or more states or territories to instigate the pathway for additional consultation. Any requests for additional consultation with HMM must be provided in writing from the requesting JAC members.

4.2.5 Input from the Administrator

Clause B39 of the Addendum requires the Statement of Impact to include input from the Administrator on the proposed change. The Administrator participates in TAC and JAC meetings, as well as meetings between IHACPA and the NHFB in relation to updates to the national funding model.

Specific advice on the proposed change will be sought from the Administrator for inclusion in the Statement of Impact.

4.3 Consultation with jurisdictions

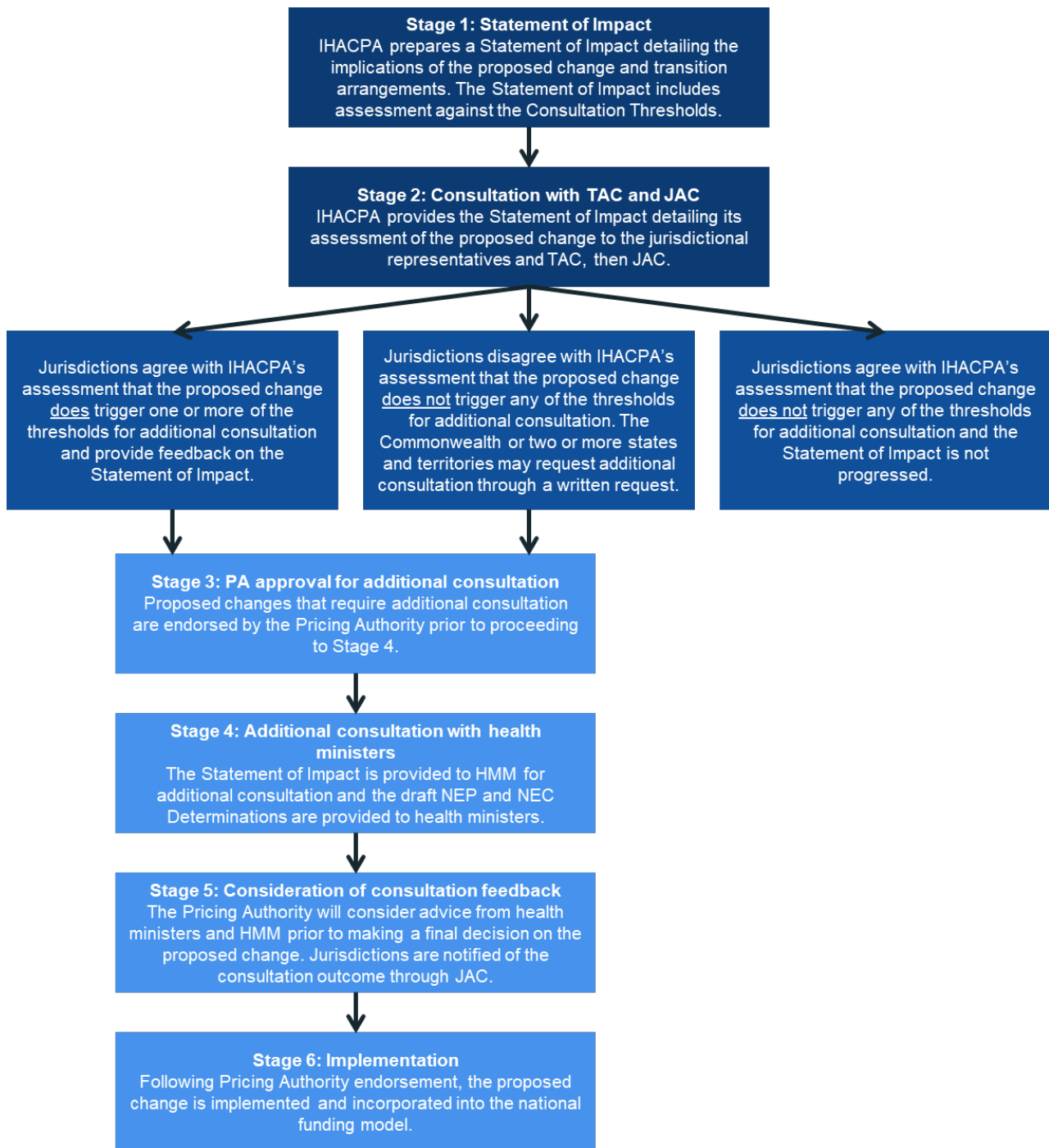
All proposed changes and adjustments to the national funding model, even those that do not trigger any of the thresholds for additional consultation, will still see the provision of a Statement of Impact and undergo existing consultative mechanisms through TAC and JAC in accordance with their Terms of Reference.

The Statement of Impact ensures that guidance is sought from the jurisdictions when IHACPA proposes changes to the national funding model that will impact the way services are delivered, as stipulated by clause B37 of the addendum.

Additionally, the Parties may escalate a funding policy issue at any stage to HCEF or HMM for consideration.

Further detail on the consultation process for Statements of Impact for proposed changes to the national funding model, including pathways for jurisdictions to request additional consultation, is provided at **Figure 1**.

Figure 1. Consultation process for Statements of Impact



5. Thresholds for additional consultation

5.1 Requirements under the addendum

Clause B10 of the addendum states that given the significance to all Parties of the functions discharged by the national funding bodies, the bodies will undertake additional consultation with HMM for changes that materially impact the application of the national funding model.

In fulfilling the intent behind this clause, IHACPA has developed a set of thresholds for assessing whether a proposed change is sufficiently material to warrant additional consultation with HMM.

5.2 Thresholds for additional consultation

The thresholds aim to capture proposed changes that represent a significant departure from IHACPA's established annual processes or a material impact on the national funding model that requires consultation beyond IHACPA's existing consultative mechanisms with the jurisdictions.

As such, each change proposed by IHACPA will be assessed against the thresholds to determine if the change is sufficiently material to require additional consultation with HMM. This assessment will be included as part of the Statement of Impact and undergo consultation through TAC and JAC for each proposed change.

Changes that are assessed to trigger one or more of the thresholds will require additional consultation with HMM. Changes that do not meet a threshold for additional consultation will still be subject to the existing consultative mechanisms with the jurisdictions through TAC and JAC. However, if the Commonwealth or 2 or more states and territories disagree with IHACPA's assessment, additional consultation on the proposed change may be requested in writing from the requesting JAC members.

The thresholds to assess materiality for additional consultation with HMM are outlined in **Table 3**.

Table 3: Thresholds for initiating additional consultation

Consultation threshold	Exceptions
Assessment of projected pricing impact on funding	
<p>Pricing impact on funding projected to be more than 0.5% at a national level.</p> <p>To be assessed separately, not cumulatively, if other changes have been proposed concurrently.</p>	Changes that IHACPA is directed to implement ⁴ .
<p>Pricing impact on funding projected to be more than 2% on any one state or territory.</p> <p>To be assessed separately, not cumulatively, if other changes have been proposed concurrently.</p>	
Costing methodology changes	
<p>Major changes in costing methodologies, for example:</p> <ul style="list-style-type: none"> • Introduction of a new version of the Australian Hospital Patient Costing Standards (AHPCS). • Introduction of a new standard, business rule or costing guideline within the AHPCS. 	Nil.
Classification system changes	
<p>All new classifications, for example:</p> <ul style="list-style-type: none"> • Introduction of the Australian Mental Health Care Classification (AMHCC) Version 1.0 for pricing mental health care services. • Introduction of the Australian Emergency Care Classification (AECC) Version 1.0 for pricing emergency department services. 	Nil.
<p>Major structural change to new versions of an existing classification, for example:</p> <ul style="list-style-type: none"> • Implementation of brand new data elements in a new version of an existing classification that are already collected in the national minimum data sets (NMDS) or national best endeavours data sets (NBEDS), but not currently utilised in the classification. • Implementation of brand new data elements in a new version of an existing classification that are not already collected within the NMDS or NBEDS. • Removal of data elements that are currently collected within the NMDS or NBEDS. • Implementation of a significantly different complexity model. 	<ul style="list-style-type: none"> • Moderate changes such as implementation of a new data element that was already collected and only redistributes activity. • Standard refinements undertaken with every revision to ensure the classification maintains clinical currency and cost homogeneity (such as updates to complexity splits and/or thresholds for existing variables).

⁴ Changes arising from a prior arrangement with the jurisdictions, for example under the addendum where IHACPA was directed to implement a pricing model for avoidable hospital readmissions and an adjustment for private patient neutrality.

Consultation threshold	Exceptions
Funding cycle impacts	
Any intended retrospective adjustments to the national funding model prior to the current pricing year.	Nil.
Any changes to the national funding model proposed to be made that will impact a state or territory funding cycle mid-year.	
By request	
A request from the Commonwealth or at least 2 states or territories for additional consultation.	Nil.

5.3 Additional consultation with HMM

IHACPA’s assessment of the proposed change will be detailed in the Statement of Impact provided to jurisdictions through TAC and JAC. Proposed changes that trigger one or more of the thresholds, and therefore are determined to have a material impact on the application of the national funding model, will require additional consultation with HMM. An assessment that a proposed change requires additional consultation does not mean that the change must undergo shadow pricing. Shadow pricing requirements are discussed in chapter 6.

The consultation process and associated timeframes for proposed changes to the national funding model has been outlined in chapter 3.

6. Shadow pricing

6.1 Provisions under the addendum

Clause A42 of the addendum states that IHACPA will use transitional arrangements when developing new ABF classification systems or costing methodologies, including shadow pricing classification system changes, for 2 years or a period agreed upon by the Commonwealth and a majority of states and territories.

This chapter provides an outline of the role of shadow pricing for proposed changes to the national funding model. IHACPA has defined the criteria and timeframes associated with the use of shadow pricing to provide clear guidance for jurisdictions.

Changes to ABF classification systems and costing methodologies and associated costing studies and shadow pricing projects are usually major undertakings requiring significant resources from IHACPA and participating states and territories. IHACPA will have consideration of the capability of all states and territories to contribute data to costing studies and shadow pricing projects in order to ensure that states and territories are actively involved in their conduct and the evaluation of outcomes.

6.2 Changes requiring shadow pricing

Clause B37 of the addendum states that IHACPA must seek guidance from Parties, through the IHACPA JAC, when implementing changes to the national funding model that will impact the way services are delivered.

IHACPA will undertake shadow pricing for the introduction of new classifications and major structural changes to new versions of existing classifications to ensure robust data collection and reporting to accurately model the financial and counting impact of changes on the national funding model and minimise the risk of incurring undesirable and inadvertent consequences.

The classification system changes determined to require shadow pricing are detailed at **Table 4**.

Table 4: Changes requiring shadow pricing

Introduction of new classifications	
<p>Examples:</p> <ul style="list-style-type: none"> • Introduction of AMHCC Version 1.0 for pricing mental health care services. • Introduction of AECC Version 1.0 for pricing emergency department services. 	<p>Exceptions:</p> <ul style="list-style-type: none"> • Where there is an undue financial or administrative burden on states and territories, such as dual data collection for new versions of the Australian Refined Diagnosis Related Groups classification or the Tier 2 Non-Admitted Services Classification. • Where agreed through IHACPA's JAC.
Major structural change to new versions of existing classifications	
<p>Examples:</p> <ul style="list-style-type: none"> • Implementation of brand new data elements in a new version of an existing classification that are already collected in national data sets, but not currently utilised in the classification. • Implementation of brand new data elements in a new version of an existing classification that are currently not collected in national data sets. 	<p>Exceptions:</p> <ul style="list-style-type: none"> • Moderate changes such as implementation of a new data element that was already collected and only redistributes activity. • Standard refinements undertaken with every revision to ensure the classification maintains clinical currency and cost homogeneity (such as updates to complexity splits and/or thresholds for existing variables). • Where there is an undue financial or administrative burden on states and territories. • Where agreed through IHACPA's JAC.

The classification system changes described in **Table 4** are not intended to be exhaustive of all classification system changes that may require shadow pricing. Other circumstances will be considered by IHACPA in consultation with jurisdictions on a case-by-case basis.

6.3 Progression from shadow pricing to pricing

IHACPA will prepare a Statement of Impact to outline its intent to progress from shadow pricing to pricing for a new or changed classification, as required under the addendum.

Clause A42 of the addendum specifies that classification system changes will be shadow priced for 2 years or a period agreed with the Commonwealth and a majority of states and territories. Under the guidelines, the interpretation of this clause is that 2 years is the minimum shadow pricing period required for classification system changes, unless a reduced shadow pricing period is agreed to by the Commonwealth and a majority of states and territories.

In the following sections, IHACPA has outlined the circumstances and considerations to reductions or extensions to the prescribed 2-year shadow pricing period required under the addendum.

Reductions to the 2-year shadow pricing period

In accordance with clause A42 of the addendum, reducing the 2-year shadow pricing period for classification system or costing methodology changes or pricing based on a costing study must be agreed upon with the Commonwealth and a majority of states or territories. The circumstances that may warrant a reduction to the 2-year shadow pricing period required under the addendum are outlined below:

- Where a reduced shadow pricing period is dictated by the addendum or other agreement between jurisdictions. For example, under the addendum IHACPA was directed to implement a pricing model for avoidable hospital readmissions and an adjustment for private patient neutrality.
- Where the prescribed 2-year shadow pricing period would adversely impact the reactivity and accuracy of pricing of public hospital services. For example, where prolonged shadow pricing would render the classification outdated prior to implementation or impact the ability of the classification to reflect the most recent cost and activity data.
- Where otherwise requested or approved by the Commonwealth and a majority of states and territories.

Proposals for reductions to the 2-year shadow pricing period will be discussed by jurisdictional representatives at IHACPA's TAC and JAC meetings, then provided to all health ministers for consideration through the Statement of Impact, as part of the 45-day ministerial comment period for the draft NEP and NEC determinations. In considering proposals for a reduced shadow pricing period, IHACPA will be guided by the following factors:

- Where the volume and quality of data reporting and collection during the shadow pricing period is determined to be sufficiently mature to support progression to pricing.
- Where the shadow pricing model demonstrates good performance in modelling costs and adequate year-on-year stability to support progression to pricing.
- Where the impact of progression to pricing represents minimal or an acceptable level of risk to funding that can be adequately mitigated.
- Where IHACPA can provide information and evidence, through the Statement of Impact, that assures jurisdictions with regards to the impact of progression to pricing.

Extensions to the 2-year shadow pricing period

There may be circumstances where an extension to the prescribed 2-year shadow pricing period is required, in consultation with TAC and JAC. Factors that may warrant an extension to the 2-year shadow pricing period may include that the:

- volume and quality of data reporting and collection is determined to be insufficiently mature or too variable across the 2-year shadow pricing period to support progression to pricing
- performance of the shadow pricing model in modelling costs is insufficient or demonstrates significant variability over the 2-year shadow pricing period, to the extent there is a high likelihood that performance would decrease substantially following progression to pricing,

noting that all shadow pricing models would be expected to demonstrate variability as they are refined and underlying data quality improves

- impact of progression to pricing presents a significant and unacceptable level of risk to funding that cannot be sufficiently mitigated.

Progression to pricing

In line with this policy and the addendum, IHACPA will prepare a Statement of Impact to outline its intent to progress from shadow pricing to pricing, where the full 2-year shadow pricing period has been undertaken or where a reduction or extension to the 2-year shadow pricing period is being considered.

The addendum does not specify the consultative mechanisms for consideration of reductions or extensions to the 2-year shadow pricing period. As such, proposals for reductions or extensions to the 2-year shadow pricing period will follow the consultative processes outlined in this policy. That is, consultation through the IHACPA committee structure and mechanisms for ministerial consultation.

The back-casting of new services and new counting rules, as well as any shadow pricing periods, will be made explicit in each annual NEP determination, as well as how back-casting should be applied in the calculation of Commonwealth growth funding. The process that IHACPA follows when back-casting the NEP or NEC is outlined in IHACPA's [Back-Casting Policy](#).

Appendix A: Extracts from the addendum

Clause	Detail
A42	<p>The IHPA⁵ will use transitional arrangements when developing new ABF classification systems or costing methodologies, including shadow pricing classification system changes and pricing based on a costing study, for two years or a period agreed with the Commonwealth and a majority of States to ensure robust data collection and reporting to accurately model the financial and counting impact of changes on the National Funding Model.</p> <ol style="list-style-type: none"> a. Where a jurisdiction participates fully in the shadow pricing, including the provision of the best available data over the shadow period to support the implementation of the new ABF classification systems or costing methodologies, the Parties agree there will be no retrospective adjustments to the National Funding Model, excluding adjustments to Commonwealth contributions as a result of service volume reconciliations as set out in clauses A63, A65 and A73. b. Business rules will be developed by the national bodies in consultation with Parties, addressing significance of changes, process and consultation around retrospective adjustments where appropriate. <ol style="list-style-type: none"> i. If the national bodies consider there is a potential need for a retrospective adjustment to the national funding model, national bodies will communicate, consult and collaborate with Parties. The national bodies will hold a consultation period of 45 days to allow Parties an opportunity to provide submissions on the matter. ii. Within 45 days following the jurisdiction 45-day consultation period, national bodies will prepare a report to the Council of Australian Governments Health Council, advising them of the national bodies' decision and the nature and circumstances of the recommended adjustment to the national funding model. iii. Once the report is provided to the Council of Australian Governments Health Council, the national bodies will incorporate the decision regarding the retrospective adjustment into the national funding model and provide parties with an updated report on funding entitlements from the national model. iv. When providing payment advice to the Commonwealth Treasurer following the six-month or annual reconciliation, the Administrator will include a section that notes any matters or concerns raised by State Ministers in the 45-day consultation period in the formation of that advice.

⁵ On 12 August 2022 amendments to the *National Health Reform Act 2011* came into effect changing IHPA's name to the Independent Health and Aged Care Pricing Authority (IHACPA) and expanding its role to include the provision of costing and pricing advice on aged care to the Australian Government.

Clause	Detail
B10	Given the significance to all Parties of the functions discharged by the national funding bodies, the bodies will consult with the Council of Australian Governments Health Council on changes that materially impact the application of the national funding model. Such consultation will be in addition to specific consultation requirements and processes with Parties set out in this Addendum.
B11	The national funding bodies must consult with affected Parties and provide relevant analysis and documentation on decisions that could materially impact Parties before releasing draft or final advice on the matter.
B13	The Commonwealth or two or more States may request that the national funding bodies present for Health Ministers' consideration a final or draft business rule, decision or determination that affects the national funding model or the calculation of the Commonwealth funding contribution. Such consultation will be in addition to specific consultation requirements and processes set out in the Addendum, and provide no less than 45 days for response by Health Ministers.
B14	As per clause A42, National Bodies will develop business rules related to process and consultation related to retrospective adjustments, for consideration and unanimous agreement by the Council of Australian Governments Health Council, by April 2021.
B15	National Bodies will formally consult with Parties on the development of business rules and policies as per clause A42.
B37	The IHPA must seek guidance from Parties, through the IHPA Jurisdictional Advisory Committee, when implementing changes to the national funding model that will impact the way services are delivered. Parties may escalate a funding policy issue to the Health Services Principal Committee, the Australian Health Ministers' Advisory Council or the Council of Australian Governments Health Council for consideration.
B38	The IHPA must provide a Statement of Impact to Parties when material changes or significant transitions are proposed to the national funding model, including changes that will have a major impact on any one party or materially redistribute activity between service streams.
B39	The Statement of Impact must be timely in relation to the matter raised and: <ul style="list-style-type: none"> a. include a risk assessment of the proposed changes or adjustments; b. outline appropriate transition arrangements; c. be informed by consultation with the Parties; and d. have input from the Administrator.
B40	The IHPA will provide the Australian Health Ministers' Advisory Council with a clear understanding of IHPA's processes, governance arrangements and its committees on national funding model matters.

Appendix B: Statement of Impact

Statement of Impact – National Pricing Model Consultation Policy	
This assessment is prepared using the most recently available cost and activity data.	
Proposed change	
For example, the introduction of a new classification for pricing.	
Detailed summary of proposed change	
Proposed implementation timeframe	
For example, proposed for implementation from 1 July 2025.	
Date of assessment	
Initial assessment date:	
Final assessment date:	
Date of provision to jurisdictions	
RISK ASSESSMENT	
Benefits associated with proposed change	
For example, the new classification is more suitable for the patient service category.	
Identified risks associated with proposed change	
<ol style="list-style-type: none"> 1. 2. 3. 	

Identified risk #1			
Risk associated with proposed change			
Risk category	For example, administrative risk or funding risk.		
Risk description			
Risk mitigation and/or management			
Risk rating (evaluated using the matrix at <u>Attachment A</u>)	Likelihood	Consequence	Overall rating
Identified risk #2			
Risk associated with proposed change			
Risk category	For example, administrative risk or funding risk.		
Risk description			
Risk mitigation and/or management			
Risk rating (evaluated using the matrix at <u>Attachment A</u>)	Likelihood	Consequence	Overall rating
Identified risk #3			
Risk associated with proposed change			
Risk category	For example, administrative risk or funding risk.		
Risk description			
Risk mitigation and/or management			
Risk rating (evaluated using the matrix at <u>Attachment A</u>)	Likelihood	Consequence	Overall rating
Risk assessment outcome (accept/decline)			

TRANSITION REQUIREMENTS		
How long has the proposed change been in development?		
Has a costing study been undertaken?		
Shadow pricing arrangements		
BACK-CASTING REQUIREMENTS		
Is back-casting required for the proposed change?		
INPUT FROM THE ADMINISTRATOR		
Has input been sought from the Administrator?		
Advice from the Administrator		
ASSESSMENT AGAINST CONSULTATION THRESHOLDS		
Consultation threshold	Y/N	Comments
Pricing impact on funding projected to be more than 0.5% at a national level		
Pricing impact on funding projected to be more than 2% on any one jurisdiction		
Major change in costing methodology		
New classification		
Major structural change to new versions of an existing classification		

Intended retrospective adjustments to the national funding model prior to the current pricing year		
Change to the national funding model proposed to be made that will impact a state or territory funding cycle mid-year		
Request from Commonwealth or at least 2 states or territories for additional guidance to be sought		
CONSULTATION PATHWAY		
Does the proposed change trigger one or more of the consultation thresholds?		
Is additional consultation required?		
Feedback from jurisdictions		
<ul style="list-style-type: none"> Feedback on the Statement of Impact received through TAC and JAC, and assessment of whether the proposed change requires additional consultation 		

Risk assessment matrix and assessment criteria

Risk assessment matrix		Likelihood			
		Rare	Unlikely	Likely	Almost Certain
Consequence	Severe	Medium	High	Extreme	Extreme
	Major	Medium	High	High	Extreme
	Moderate	Low	Medium	High	High
	Minor	Low	Low	Medium	Medium

Assessment criteria: likelihood of risk occurrence

Likelihood	Description of likelihood
Rare	Risk is an unusual event that would only occur in exceptional circumstances
Unlikely	Risk is an unusual event but could occur in some circumstances
Likely	Risk would be expected to occur in some routine circumstances
Almost certain	Risk would occur in routine circumstances

Assessment criteria: consequences associated with risk

Consequence	Description of consequence
Minor	Risk represents minimal funding impacts (less than the thresholds of 0.5% nationally and 2% on any one jurisdiction) or administrative impacts on the delivery of IHACPA's pricing functions, though some aspects of delivery may require minor adjustment
Moderate	Risk represents moderate funding impacts (equal to the thresholds of 0.5% nationally and 2% on any one jurisdiction) or administrative impacts on the delivery of IHACPA's pricing functions
Major	Risk represents major funding impacts (thresholds of up to 5% nationally and 20% on any one jurisdiction) or administrative impacts on the delivery of IHACPA's pricing functions
Severe	Risk would prevent the delivery of IHACPA's pricing functions due to funding impacts (thresholds of greater than 5% nationally and 20% on any one jurisdiction) or administrative impacts



Independent Health and Aged Care Pricing Authority

Eora Nation, Level 12, 1 Oxford Street
Sydney NSW 2000

Phone 02 8215 1100

Email enquiries.ihacpa@ihacpa.gov.au

www.ihacpa.gov.au

